

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-038
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

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AUDIT REPORT NUMBER

#09-038

38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Ray Souza, President
Board of Directors
38th DAA, Stanislaus County Fair
900 North Broadway
Turlock, California 95380

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 38th District Agricultural Association (DAA), Stanislaus County Fair, Turlock, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 38th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 38th DAA, Stanislaus County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 38th DAA, Stanislaus County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-038, on the 38th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 38th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA
Chief, Audit Office

April 24, 2009

**38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash & Cash Equivalents	111 - 118	\$ 615,153	\$ 606,697
Accounts Receivable, Net	131	13,751	79,303
Deferred Charges	143	-	51,900
Construction In Progress	190	10,568	43,305
Land	191	72,594	72,594
Building and Improvements, Net	192	1,489,678	1,247,435
Equipment, Net	193	31,204	20,390
TOTAL ASSETS		<u>2,232,949</u>	<u>2,121,624</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable and Other Liabilities	211 - 213	45,049	49,545
Payroll Liabilities	221 - 226	5,209	5,043
Deferred Income	228	77,733	70,830
Guaranteed Deposits	241	43,550	37,350
Compensated Absences Liability	245	119,819	105,667
Total Liabilities		<u>291,360</u>	<u>268,435</u>
Net Resources			
Reserve for Junior Livestock Auction	251	50,883	52,121
Net Resources - Operations	291	286,661	417,344
Net Resources - Capital Assets, less Related Debt	291.1	1,604,045	1,383,724
Total Net Resources Available		<u>1,941,589</u>	<u>1,853,189</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 2,232,949</u>	<u>\$ 2,121,624</u>

**38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	\$ 105,000	\$ 105,000
Project Reimbursement	319 - 340	35,056	72,933
Admissions	410	1,327,359	1,004,885
Commercial Space	415	15,850	16,250
Carnival	421	455,413	405,011
Concessions	422 / 423	421,893	380,116
Exhibits	430	32,082	25,677
Horse Show	440	25,367	22,641
Satellite Wagering Facilities- Revenue	450	355,350	400,405
Attractions - Fairtime	460	248,131	242,670
Miscellaneous Fair	470	383,838	280,714
JLA - Revenue	476	50,802	39,017
Non-Fair Revenue	480	280,563	296,721
Prior Year Adjustment	490	1,273	21,302
Other Revenue	495	142,596	43,028
Total Revenue		<u>3,880,572</u>	<u>3,356,370</u>
EXPENSES			
Administration	500	543,271	500,859
Maintenance and Operations	520	748,483	849,786
Publicity	540	253,060	173,967
Attendance	560	263,683	258,737
Miscellaneous Fair	570	175,670	142,525
JLA - Expense	576	52,040	47,952
Premiums	580	89,502	83,680
Exhibits	630	195,832	160,304
Horse Show	640	45,196	37,367
Satellite Wagering Facilities- Expense	650	312,197	311,747
Attractions - Fairtime	660	963,993	857,021
Equipment	723	50,581	7,234
Prior Year Adjustments	800	(2,973)	(2,449)
Cash Over/Under	850	599	286
Depreciation Expense	900	101,037	77,604
Other Capital Expenditures	945	-	17,933
Total Expenses		<u>3,792,172</u>	<u>3,524,553</u>
RESOURCES			
Net Change - Income / (Loss)		88,400	(168,183)
Resources Available, January 1		1,853,189	2,021,372
Resources Available, December 31		<u>\$ 1,941,589</u>	<u>\$ 1,853,189</u>

**38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 88,400	\$ (168,183)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	65,552	9,057
(Increase) Decrease in Deferred Charges	51,900	(51,190)
Increase (Decrease) in Account Payable and Accrued Expenses	(4,497)	2,921
Increase (Decrease) in Deferred Income	6,904	23,689
Increase (Decrease) in Taxes Payable	167	214
Increase (Decrease) in Guaranteed Deposits	6,200	1,550
Increase (Decrease) in Leave Liability	14,151	(1,536)
Total Adjustments	<u>140,377</u>	<u>(15,296)</u>
Net Cash Provided (Used) by Operating Activities	<u>228,777</u>	<u>(183,479)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	32,737	(11,961)
(Increase) Decrease in Buildings & Improvements, Net	(242,243)	(207,763)
(Increase) Decrease in Equipment, Net	<u>(10,815)</u>	<u>3,970</u>
Net Cash Provided (Used) by Investing Activities	<u>(220,321)</u>	<u>(215,755)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	8,456	(399,233)
Cash at Beginning of Year	606,697	1,005,930
CASH AT END OF YEAR	<u><u>\$ 615,153</u></u>	<u><u>\$ 606,697</u></u>

**38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 38th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Stanislaus County Fair each year in Turlock, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, (“GASB Statement No. 48”). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the

expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3

CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash	\$ 19,217	\$ 24,297
Cash in Bank - Operating	78,298	62,007
Cash in Bank -Payroll	398	359
Cash in Bank – Time Deposits	455,722	460,008
Cash in Bank - JLA	48,964	50,923
Cash – SWF ATM	12,554	9,103
Total Cash and Cash Equivalents	<u>\$ 615,153</u>	<u>\$ 606,697</u>

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	\$ 221,890	\$ 280,673
Allowance for Doubtful Accounts	<u>(208,139)</u>	<u>(201,370)</u>
Accounts Receivable - Net	<u>\$ 13,751</u>	<u>\$ 79,303</u>

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Building & Improvements	\$ 3,706,306	\$ 3,382,210
Less: Accumulated Depreciation	<u>(2,216,628)</u>	<u>(2,134,774)</u>
Building & Improvements - Net	<u>\$ 1,489,678</u>	<u>\$ 1,247,435</u>
Equipment	\$ 371,477	\$ 346,960
Less: Accumulated Depreciation	<u>(340,273)</u>	<u>(326,571)</u>
Equipment - Net	<u>\$ 31,204</u>	<u>\$ 20,390</u>

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement

plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **DEFERRED INCOME**

Deferred income totaling \$77,733 at December 31, 2008 consist of unearned multi-year sponsorship revenue totaling \$37,099 and 2009 facility rental revenue received in 2008 totaling \$40,634.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 38th DAA Board of Directors
1	Chief Executive Officer, 38th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

MANAGEMENT REPORT #09-038

YEAR ENDED DECEMBER 31, 2008

38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
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Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER

#09-038

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Ray Souza, President
Board of Directors
38th DAA, Stanislaus County Fair
900 North Broadway
Turlock, California 95380

In planning and performing our audit of the financial statements of the 38th District Agricultural Association (DAA), Stanislaus County Fair, Turlock, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Stanislaus County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 38th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 38th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 38th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 38th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 38th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 38th DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: board member tickets/passes, sponsorship agreements, and accounting for change funds. We have provided seven recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 38th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

BOARD MEMBER TICKETS/PASSES

The Fair issues one ten-seat box for motor sport events to each Board member (nine board members). For 2008, motor sport event ticket costs ranged from \$8 to \$12 each resulting in a maximum value of tickets totaling \$820 per Board member. Although the amount is not deemed excessive, the distribution may be deemed a gift of public funds. According to the Government Code, Section 82028, a gift is defined as any payment that confers a personal benefit on the recipient, to the extent that consideration of equal or greater value is not received. The California constitution states in part, “the Legislature shall have no power to make any gift or authorize the making of any gift, of any public money or thing of value to any individual,” and a state agency DAAs are governed by this law. In addition, according to the Fairs and Exposition APM, free passes to state-sponsored entertainment events are prohibited.

The Fair Political Practices Commission (FPPC) recently adopted CCR, Section 18944.1, which would require free tickets/passes to be treated as income subject to taxes or treated as gift, which would make them subject to strict state limits. If not treated as income, the Fair/official would have to demonstrate that the freebies benefit the public because state law prohibits gifts of public funds.

Recommendation

- 1. The Fair should document the business purpose for any distribution of ticket/passes to their board members in the future. Without the business purpose documented, these distributions may be deemed a gift of public funds.*

SPONSORSHIP AGREEMENTS

An examination of the Fair’s sponsorship agreements revealed the following internal control weaknesses that expose the Fair to loss:

- a. The Fair has no Board-established procedures for entering into sponsorship agreements. According to the Fairs and Expositions (F&E) Contracts Manual, DAAs should have Board established procedures for entering into sponsorship agreements. This includes procedures for securing sponsorships and sponsorship coordinators.
- b. The Fair had fifteen sponsorship agreements with terms greater than two years that were not submitted to F&E for review, as required by the F&E Contracts Manual. As a result, the Fair entered into the agreements prior to notification of F&E review. In addition, one of the fifteen contracts exceeded \$100,000 in value and involved the building of a permanent structure on the Fair’s property. Contracts greater than \$100,000 or that involve the building of a permanent structure require F&E approval.

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Turlock, California

- c. The Fair did not properly account for the revenue it received from all multi-year sponsorships in accordance with generally accepted accounting principals and as a result, overstated its net resources on the year-end financial statements. For example, the Fair entered into a \$35,000 sponsorship agreement with a local bank covering a seven-year period. The Fair improperly recognized the entire amount of revenue in the first year of the agreement, rather than allocating the proceeds over seven years. According to generally accepted accounting principles (GAAP), revenue should be recognized only in the accounting period in which it is earned. In this instance, only \$5,000 in revenue should have been recognized in 2008, and the remaining balance of \$30,000 should have been accounted for in Account #228, Deferred Income.
- d. The Fair did not prepare a brief description in memo form why it is in the best interest of the DAA and the State to enter into the proposed sponsorship agreement with terms in excess of \$100,000 and greater than two years. This form is to be submitted to F&E for review to determine whether or not the terms are in the best interest of the DAA and the State.

Recommendations

- 2. The Fair should comply with the F&E Contracts Manual by establishing Board approved procedures for entering into sponsorship agreements.*
- 3. The Fair should submit to F&E for review, when required, all proposed sponsorship agreements prior to entering into agreement. The Fair should emphasize better controls and procedures regarding sponsorship agreements, and the Fair should retain evidence that the Fair obtained notification from F&E for any sponsorship agreement meeting the requirements under the Food and Agriculture Code Section 4051.1.*
- 4. The Fair should comply with generally accepted accounting principles by ensuring funds received in advance from multi-year agreements are recognized over the length of the agreement. The Fair should make the necessary correcting journal to ensure Account #228, Deferred Income, is fairly stated in its general ledger.*
- 5. The Fair should prepare and submit to F&E for review, a brief description in memo form of any proposed sponsorship agreement prior to entering into the agreement when required.*

ACCOUNTING FOR CHANGE FUNDS

An examination of the internal controls for satellite wagering facility (SWF) automated teller machine (ATM) change fund revealed the following weaknesses:

- a. Checks prepared by the Fair to replenish the SWF ATM were not cashed in a timely manner. We noted that checks have been cashed up to twenty-five days after being issued. Holding checks for an extended time period increases the likelihood of theft, loss, or other misuse of these checks.

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- b. Although the Fair issues replenishing checks in \$3,000 increments to adhere to the State Administrative Manual (SAM) 8032.4 requirement that a single employee will not transport more than \$3,000 in coin and currency at one time, we noted the cashing of two to six SWF ATM change fund replenishing checks at one time throughout the year resulting in the transportation of \$6,000 to \$18,000 by a single employee.

Recommendations

6. *The Fair should improve internal controls over checks issued to replenish the SWF ATM by ensuring they are cashed in a timely manner. The time period between issuing and cashing the check should never be greater than two or three days.*
7. *The fair should comply with the SAM 8032.4 and ensure that no single employee transports more than \$3,000 in coin and currency at one time.*

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

The Fair did not correctly account for all fixed asset transactions prior to closing the accounting records. The Fair did not capitalize an LED display sign totaling \$121,718, which was fully paid for by a Fair sponsor. In addition, the cost of the LED display sign paid for by the Fair sponsor was not recorded as donation revenue. As a result, Account #192, Buildings & Improvements, and Account #49520, Donation/Sponsorship Revenue, were understated \$121,718 and Account #192.1, Accumulated Depreciation, was understated \$12,172.

Recommendation

The Fair should make the necessary correcting journal entries to ensure its fixed asset amounts are fairly stated in the accounting records. In the future, the Fair should ensure that all fixed asset transactions are properly accounted for in the general ledger and property ledger prior to closing the accounting period at year-end.

119-DAY EMPLOYEES

The Fair allowed three temporary employees to work in excess of the 119-day limitation within a calendar year. According to the APM, “by law temporary employees may not work more than 119 days in a calendar year.” The APM further cites Article VII Sec. 4(1) of the Constitution of the State of California as its basis for this policy. We noted these employees worked between 133 and 188 days in 2008.

Recommendation

The Fair should comply with the APM and State Constitution limitation by ensuring temporary employees do not work in excess of the 119-day limitation.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



September 17, 2009

Ron Shackelford, Chief
Audit Office
California Dept. of Food and Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

Dear Ron,

We are in receipt of the recently completed audit report for the year 2008 as performed by your office. We offer the following response to the three reportable conditions.

1. **Board Member Tickets/Passes:** While the Audit Office was correct in noting that our Board members do receive free box seat tickets to our arena events, one of which is a free rodeo event, they are not deemed excessive in our minds or by your report. The Board will however, attempt to document the distribution of those passes in the future.
2. **Sponsorship Agreements:** At their meeting of April 20, 2009, the Board of Directors approved the attached "Proposed Sponsorship Procedures". We believe that this covers the recommendations as outlined in the audit report.
3. **Accounting for Change Funds:** The Fair agrees with the recommendation for handling the Satellite Wagering Facility (SWF) ATM change fund and has been adhering to the following procedure for several months now.
 - a. SWF ATM checks are now cashed in a timely manner, within two to three days of issuance.
 - b. Two people from our administration office go to the bank, cash the check and deliver said money to the SWF where they load the ATM machine utilizing established documentation procedures.

Please be advised that, with the exception of the Board members' tickets and passes, the Fair has already begun implementation of the other recommended changes. The recommendation for tickets and passes was not implemented for 2009 due to time constraints, but will be reviewed for the 2010 fair.

On behalf of our Board and staff, I thank you for your continued efforts to improve our operations.

Should you have any questions, please do not hesitate to call or write.

Sincerely,

Anthony C. Leo
Chief Executive Officer
38th District Agricultural Association

Ray Souza
President, Board of Directors
38th District Agricultural Association
900 North Broadway
Turlock, CA 95380
209.668.1333
Fax: 209.668.0410
www.stancofair.com

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 39th DAA, Stanislaus County Fair, for their review and response. The Stanislaus County Fair response addressed the findings in the report and stated their plans for implementing each recommendation. However, we have reviewed their response and in order to provide clarity and perspective, we have provided the following comments for reportable recommendation #4. The comments are as follows:

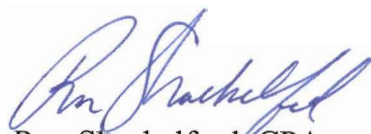
Recommendation #4 -

The Audit Office stated that the Fair did not properly account for the revenue it received from all multi-year sponsorships in accordance with GAAP and, as a result, overstated its net resources on the year-end financial statements. The Fair improperly recognized the entire amount of revenue in the first year of the agreement, rather than allocating the proceeds over the term of the agreement. The Fair's response was that they believed the Board approved sponsorship procedures covers this recommendation. However, the Board approved sponsorship agreement does not address this finding and appropriately so. The appropriate response would be that the Fair will make the appropriate correcting journal entries to ensure deferred income is fairly stated in the general ledger.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 13, 2009 and April 24, 2009. My staff met with management on April 24, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

April 24, 2009

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